

Government Orders

on tax expenditures we will never get the finances of this country under control.

Apart from that, the other major thing in this bill is that it reduces by 50 per cent the taxes paid by American multinationals operating in Canada on their profits. Every single member of this House knows that we have a special division in Revenue Canada called the transfer pricing division. Every member in this Chamber knows there are nine or 10 people there and there are another 17 or 18 in the field looking at all these multinationals. Everyone knows that over 70 per cent of them do not pay any tax at all. Transfer pricing is the major problem but there are other problems as well.

You charge \$50 for a clothespin when you pass it from your parent company to your subsidiary. The trick is that if you have a company working in Canada at rates which are higher than in the United States, you want to make sure there is no profit showing on the books, so you bring down the profits by transfer pricing.

The only place we know they can pay taxes on their profits and operations in Canada is at the border. What is the Senate doing in this bill? The Senate is reducing that to half. How much money is that? Let me quote the chief of corporate and international tax of the finance department before the Senate standing committee on April 25, 1995. He was asked the question: Why not reduce it to zero? Instead of 10 per cent why not bring it down to zero? His answer is on page 19 of the transcript: "The principal reason is money". Do not forget we are reducing it by half down to five. He said: "I have not looked recently but I believe that our annual withholding tax take is approximately \$1.5 billion. Currently it would be difficult to sustain completely walking away from that". I repeat, 1.5 billion bucks.

Do you know, Mr. Speaker, that the agreement we are passing here today not only reduces the withholding tax by 50 per cent but it also commits us in writing that in three years time we will go back to Washington and negotiate it down?

An hon. member: No.

Mr. Baker: Yes, in this agreement, down to zero. That is only one of the tax cuts in this agreement.

Let me get to the whole purpose. What is behind this? What is behind this kind of rush? The *International Business and Finance Daily* is printing news stories. I will read a portion. I can table it for hon. members to see. It is marked: "Washington, September 12, 1995".

• (1715)

They are interested in getting the bill passed before the end of the month. Why? This is why. "The protocol to the tax treaty between the United States and Canada is expected to be ratified by the Canadian Parliament before the end of October". It then goes on to talk about the other protocols that were signed and quoted a Canadian official: "We will try as quickly as we can for the second reading, and the third reading will take place in the Canadian House of Commons". That is nice to know.

He then goes on to say that although the leading party, the Bloc, has the power to hold up the vote, he does not expect that it will. Then he goes on to say that one of the key features of the protocol is this: "The proposed treaty will be effective with respect to amounts paid or credited on or after the first day of the second month after the protocol enters into force". Just imagine. Let me repeat that: "the first day of the second month that the protocol" is finished in this Chamber. This is October. The next sentence is key. "Companies in the United States are looking to apply the rate to their 1995 income tax. However, if the third reading vote is delayed in the House of Commons they may have to pay the higher rate on dividends".

The largest multinationals in the world will be getting an enormous tax decrease. However, if this bill does not pass third reading before the end of October, they will not be able to claim their reduction of 3 per cent because the protocol lowers the existing treaty's 10 per cent tax rate to 7 per cent in 1995, 6 per cent in 1996 and 5 per cent in 1997. Does anyone want to save the Government of Canada a few hundred million dollars? Pass this bill the first week in November.

Those are just a few of the reasons why I am opposed to the bill. The big one is this. Every single business organization in the United States that appeared before the Congress of the United States made one point clear. Of the seven treaties that were being passed in the U.S. Senate, only the Canadian treaty was truly a one-sided affair with the majority of the benefits going to the United States.

Let me quote from probably the biggest business organization, the National Foreign Trade Council, Inc., 1914 representing 500 U.S. multinationals, Mr. Robert H. Green, vice-president, tax policy: "Turning to the treaties before you"—this is the testimony—"the one that clearly is of the greatest interest to the largest number of companies in my membership is the U.S.-Canada protocol. The investment that flows between the two countries is substantial and favours the United States. We have substantially more investment there than they do here. The dividend withholding rates which are phased into 5 per cent over three years are of tremendous benefit to the United States because of the reduced"—this, that and the other thing. He goes on to say: "Here are all the cuts".